

OMB A-123 Update

JFMIP Conference
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OMB A-123 Update

- Working closely with GAO's Green Book Update
- OMB is revising Circular A-123 for the first time since 2004
- Going back to the A-123 Vault: 1981, 1983, 1986, 1995, 2004
- Draft being developed with agency help—we are still working through an initial draft
- Our vision: transform and evolve existing internal control compliance frameworks so that it creates a more value added, integrated, risk based, and less burdensome set of requirements for agencies. The revised guidance will:
 - Clarify technical terminology to ensure that program managers can understand and use internal controls properly;
 - Replace “check the box” compliance approaches with risk management based approaches to support agency missions;
 - Evolve internal controls beyond financial reporting while at the same time reducing compliance burdens to focus on program controls; and
 - Innovates internal controls by taking advantage of government data available to provide stronger oversight, make better business decisions, and leverage resources in challenging financial times



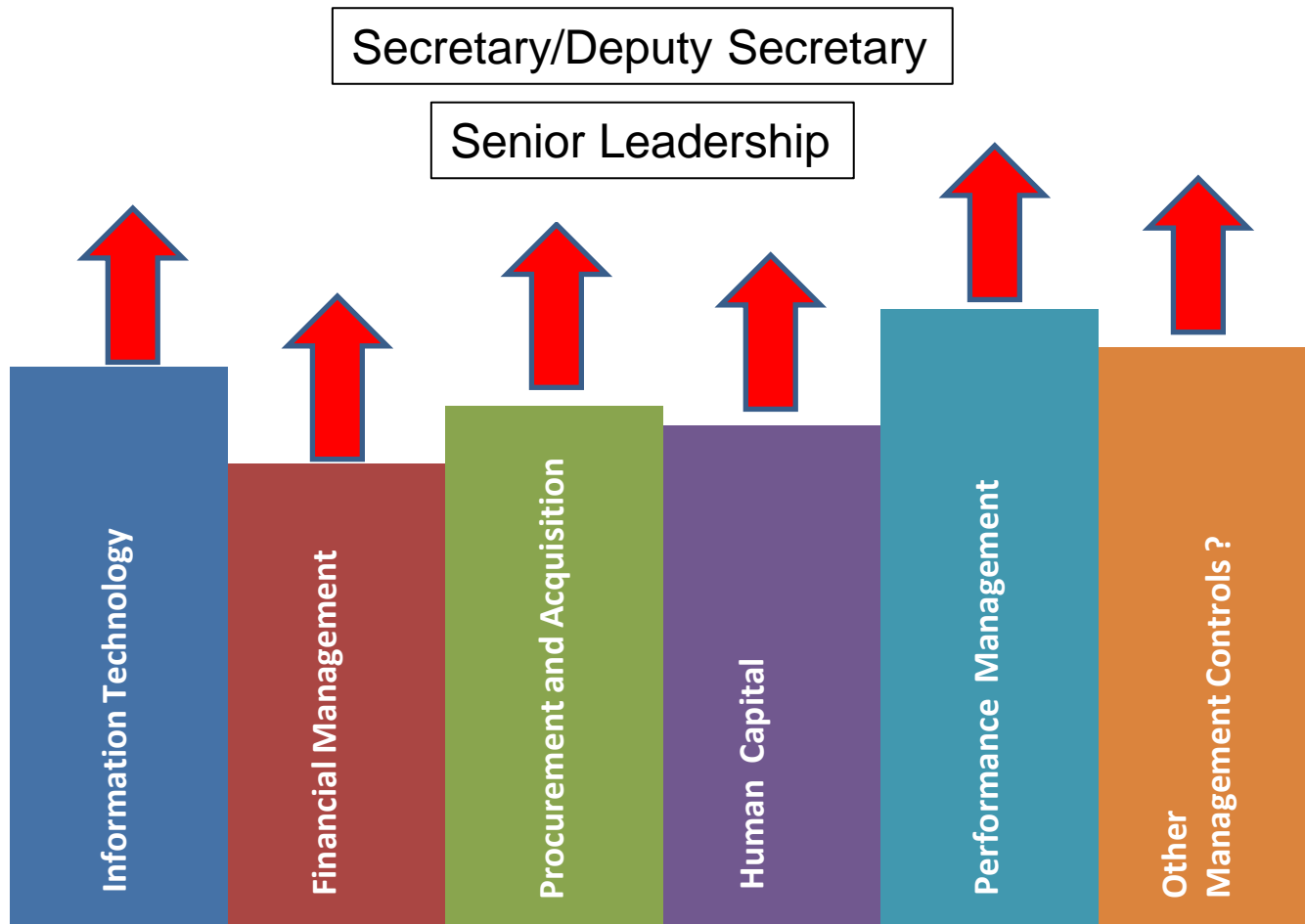
Internal Controls for the Program Manager

- The **Control environment** sets the tone of an organization, influencing staff awareness of good controls, procedures, accountability, and program management. It is the foundation for all other components of internal control, providing discipline and structure.
- **Risk assessment** is the identification and analysis of relevant risks associated with achieving program or agency objectives, such as those defined in strategic and annual performance plans, and forming a basis for determining how risks should be managed.
- **Control activities** are the policies and procedures established to achieve the entity's objectives. They help ensure that management's directives are carried out in daily program operations.
- **Information** is needed by management and employees to monitor progress in meeting the organization's mission and objectives while maintaining proper accountability and internal control. Pertinent information should be regularly tracked and **communicated** throughout the organization (down, up, and across) so that employees in all levels of the organization understand their role in achieving the organization's mission and objectives, and their roles and responsibilities in maintaining proper internal controls.
- Internal control systems should be **monitored** to assess their effectiveness and to modify procedures as appropriate based on results of the monitoring activities (feedback). Monitoring is accomplished through routine, ongoing activities, separate evaluations, or both.

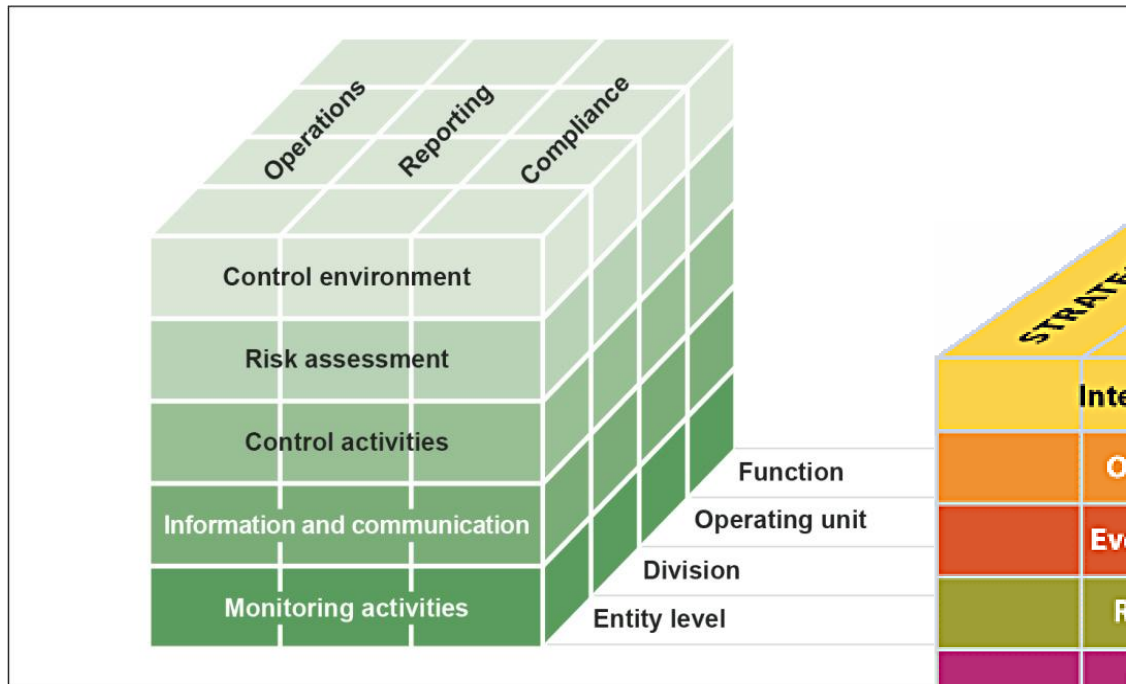
— Source GAO



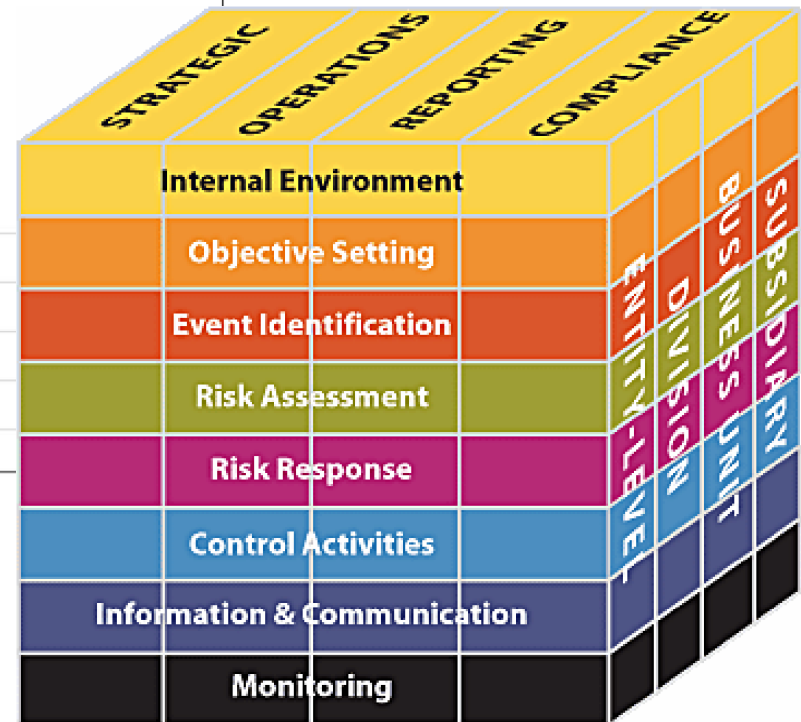
Integrated Internal Controls and Risk Management



Integrated Internal Controls and Enterprise Risk Management



Source: COSO.



Source: COSO



Internal Control Over Reporting

- Internal control is an integral component of an entity's management that provides reasonable assurance that the objectives of an entity are being achieved. These objectives and related risks can be broadly classified into one or more of the three following categories:
 - Operations - Effectiveness and efficiency of operations
 - **Reporting - Reliability of reporting for internal and external use**
 - Compliance - Compliance with applicable laws and regulations
- Reporting objectives relate to the preparation of reports for use by the entity, its stakeholders, or other external parties. Reporting objectives may be grouped further into subcategories:
 - External Financial Reporting Objectives - Objectives related to the release of the entity's financial performance in accordance with professional standards, applicable laws and regulations, as well as expectations of stakeholders.
 - External Nonfinancial Reporting Objectives - Objectives related to the release of nonfinancial information in accordance with professional standards, applicable laws and regulations, as well as expectations of stakeholders.
 - Internal Financial Reporting Objectives and Nonfinancial Reporting Objectives - Objectives related to gathering information needed by management to support decision making and evaluation of the entity's performance.



Special Topics

- Data Analytics and Continuous Monitoring benefits to Do Not Pay, Debt Collection, and Charge Cards include:
 - Identification of hidden relationships between people, organizations, and events
 - A means to analyze suspicious transactions
 - An ability to continually monitor and assess the effectiveness of internal controls
 - The ability to analyze thousands of transactions in less time, more efficiently, and more cost effectively than using traditional methods
 - (Source/Based on Girgenti, and Hedley)
- Hurricane Sandy Relief
 - GAO recommends that OMB develop more robust guidance for agencies to design internal control plans for future disaster relief funding.
- Technical Topics
 - GAO Standards
 - Shared Services
 - Assurance Statements
 - Significant Deficiency vs. Reportable Condition definitions.



Discussion Questions – What Do You Think?

1. In the approach discussed consistent with the times and environment we work in?
2. Are there other value added goals or topics we should consider?
3. What do you think about the structure and balance of A-123?
 - Too heavy on Financial Reporting and Compliance?
 - What about efficiency and effectiveness of operations?
 - Too many or too little appendices?
 - CFOC Implementation Guide?

